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DIRECTORATE OF INTELLIGENCE

# *Central Intelligence Bulletin*

Secret

№ 42

5 August 1971

Approved For Release 2003/06/25 : CIA-RDP79T00975A019700040001-9

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NO. 0186/71
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JAPAN: The new head of the Democratic Socialist Party (DSP) is likely to forge a stronger antigovernment alliance with the other opposition parties.

Former secretary-general Ikko Kasuga was elected on 3 August to fill the post of chairman, which was vacated by the death of the previous chairman last April. The DSP is the third largest opposition party in Japan.

Kasuga, after the election, expressed strong support for unity efforts among the opposition parties. His comments indicate the DSP, possibly in concert with Komeito and the Japan Socialist Party (JSP), will probably oppose Diet ratification of the Okinawan reversion agreement and adopt a more pro-Peking China policy. He argued vaguely that the "new situation" brought about by the Nixon initiative on China required a renegotiation of the reversion agreement.

The election of Kasuga, despite a record tainted by rumors of scandal, reflects the pressure within the DSP ranks to strengthen its image as a "renovationist" party in contrast to its traditional image as, in effect, a second conservative party. The DSP's failure to capitalize on the over-all decline of the larger JSP in the last few years has contributed to rank-and-file dissatisfaction. 25X1

INDIA: New Delhi has reportedly initiated a scheme to subsidize government-owned industrial plants.

All government departments have been directed in making future purchases to give government-owned plants, which are relatively inefficient, a ten-percent price preference over the private sector. This directive will take some of the pressure off these plants to reduce costs and increase productivity. Government-owned manufacturing and industrial enterprises in 1969/70 lost about $10 million.

The new price scheme will probably substantially increase the cost of government purchases of supplies now running about $665 million annually. Railways, defense, and posts and telegraphs, the largest government buyers, will almost certainly incur increased costs. [redacted]

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<u>INTERNATIONAL MONETARY DEVELOPMENTS</u>: The Bank of France yesterday prohibited commercial banks from taking in any further foreign currency from abroad except from valid trade transactions. This move has triggered rumors and speculative activity throughout Europe's foreign exchange and gold markets.

The measure is designed to curb the substantial inflow of foreign funds, mostly dollars, that have had to be absorbed by the Bank of France in recent weeks. France has been the main recipient of speculative dollars since early May when West Germany, the Netherlands, Belgium, and Switzerland took steps to shield their economies from further dollar inflows. During July the Bank of France was forced to take in over $1 billion in dollars, although it has publicly admitted to only half that amount.

Following the new French control measure, the value of the dollar slipped badly against all major currencies when dollars were turned in for gold, driving the price up to about $42.90 an ounce on the London market. As it became clear that the French were not deliberately waging an attack on the dollar, the price of gold receded to $42.50 and the dollar recovered slightly. This development does not portend a new currency crisis, but it does demonstrate the French view of a persistently weak US dollar and its potential inflationary effects in France.

In a related development, the French Government, reflecting its growing concern about domestic inflation, raised the reserve requirements for commercial banks by two percent. This is the second increase in two weeks. Commercial bank holdings fuel inflation by expanding the domestic credit base and the last two increases in reserve requirements remove over $1 billion from banks' loanable funds. [redacted] 25X1

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ITALY: The Council of Ministers has approved an expansionary budget for next year that includes funding for the government's pending social reform programs and for certain regional programs.

The budget, which will be debated in Parliament this fall, provides full financing for pending university, housing, health, and southern development bills as well as for the recently approved anti-recessionary package. The controversial housing reform bill is scheduled for a Senate vote Saturday and, if the government survives the vote, the remaining legislation should be passed this fall. The revenue estimates take account of the tax reform bill also scheduled for a vote Saturday.

The budgetary deficit is expected to be $3.8 billion and an additional $2.8-billion deficit will result from extrabudgetary operations. The total represents a 28-percent increase in the deficit compared with last year. Although budget expenditures probably include funding for multiyear programs, the increase implied for 1972 is appropriate to the sluggish state of the Italian economy.

This is the first time that the budget includes provisions for financing regional government programs. Initial expenses of the 15 regional governments elected in 1970 were covered by central government grants. The regions in 1972 will begin to amass revenue allotted specifically to them, some revenue from excise taxes, and a share of central government taxes.

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## NOTE

<u>COMMUNIST CHINA - UN</u>: Peking's flat rejection of the US proposal for dual Chinese representation in the UN reiterates its long-standing opposition to any formula that smacks of "two Chinas." The New China News Agency article of 4 August labeled Secretary Rogers--acting on behalf of "US imperialism"--as the instigator of the new move, but was careful to play down the role of the President. Peking has maintained a rigid posture in support of the traditional Albanian resolution calling for Taipei's expulsion, and there is no sign the Communists would enter the world body if the Nationalists remain.

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